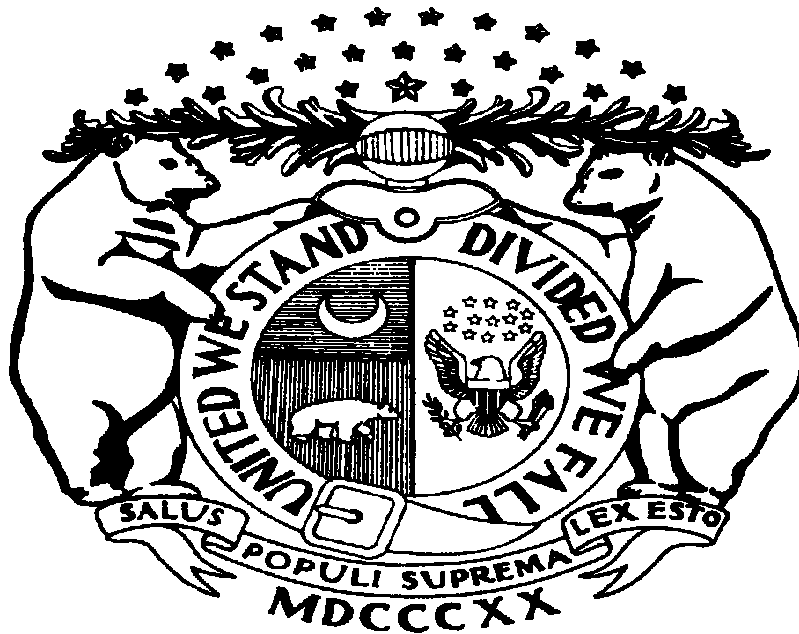


REPORT OF
ASSOCIATION FINANCIAL EXAMINATION

OZARK NATIONAL LIFE INSURANCE COMPANY

AS OF
DECEMBER 31, 2001



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	2
PERIOD COVERED.....	2
PROCEDURES.....	2
COMMENTS-PREVIOUS EXAMINATION	3
HISTORY	4
GENERAL.....	4
CAPITAL STOCK	4
DIVIDENDS	5
MANAGEMENT	5
CONFLICT OF INTEREST	7
CORPORATE RECORDS.....	7
ACQUISITIONS, MERGERS AND MAJOR CORPORATE EVENTS	8
SURPLUS DEBENTURES.....	8
AFFILIATED COMPANIES	8
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES	8
ORGANIZATIONAL CHART	8
INTERCOMPANY TRANSACTIONS	10
FIDELITY BOND AND OTHER INSURANCE.....	14
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	15
STATUTORY DEPOSITS	15
DEPOSITS WITH THE STATE OF MISSOURI.....	15
DEPOSITS WITH OTHER STATES.....	15
INSURANCE PRODUCTS AND RELATED PRACTICES.....	16
TERRITORY AND PLAN OF OPERATIONS.....	16

POLICY FORMS & UNDERWRITING	17
ADVERTISING & SALES MATERIAL	17
TREATMENT OF POLICYHOLDERS	17
REINSURANCE.....	18
GENERAL.....	18
ASSUMED	18
CEDED.....	18
ACCOUNTS AND RECORDS.....	20
GENERAL.....	20
LOSS RESERVES.....	20
FINANCIAL STATEMENTS	20
ASSETS	21
LIABILITIES, SURPLUS AND OTHER FUNDS	22
SUMMARY OF OPERATIONS	23
CAPITAL AND SURPLUS ACCOUNT.....	24
NOTES TO THE FINANCIAL STATEMENTS.....	25
EXAMINATION CHANGES.....	26
GENERAL COMMENTS AND/OR RECOMMENDATIONS	26
SUBSEQUENT EVENTS	28
ACKNOWLEDGMENT.....	29
VERIFICATION	29
SUPERVISION.....	29

Kansas City, Missouri
October 1, 2003

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman of Financial Condition (EX4) Subcommittee
Southeastern Zone Secretary

Honorable Jim Poolman, Commissioner
North Dakota Department of Insurance
Midwestern Zone Secretary

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65102-0690

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Ozark National Life Insurance Company

hereinafter referred to as such or as the "Company" or as "Ozark National". Its administrative office is located at 500 East Ninth Street, Kansas City, Missouri 64106, telephone number (816) 842-6300. This examination began on November 18, 2002, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior comprehensive financial examination of Ozark National Life Insurance Company was made as of December 31, 1998, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) and an examiner from the state of Mississippi representing the Southeast Zone.

The current full scope financial examination covers the period from January 1, 1999, through December 31, 2001, and has been conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zone participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed. The examiners relied upon information supplied by the Company's independent auditor, PricewaterhouseCoopers LLP, of Kansas City, Missouri. Such reliance included use of confirmation workpapers for policyholders' accounts, policy loans, investments and cash account statements as of December 31, 2001.

Comments-Previous Examination

Listed below are comments, recommendations and notes of the previous examination report dated as of December 31, 1998, and the subsequent response or action taken by the Company.

Capital Stock

Comment: The Company had different par values of its common stock in the stock certificate and Articles of Incorporation. The Company was directed to reissue the stock certificates with the accurate par value.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The stock certificates have been reissued with the correct par values indicated.

Corporate Records

Comment: The Company was directed to record proceedings of its various committees and maintain such records for review during future examinations.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: Minutes of the board of directors and various committees of the board were available for review during this examination.

Comment: The Company was directed to appoint additional members to its active committees in line with the provisions of its Bylaws.

Company's Response: The Company agreed to comply with the recommendation.

Current Findings: The various committees have the required number of members.

Intercompany Transactions

Comment: The Company was directed to enter into a written agreement with an affiliated travel agency that manages its travel services for a fee.

Company's Response: The Company agreed to enter into a written agreement with the affiliate.

Current Findings: The agreement was approved by the MDI and appears to be functioning as designed. However, See the "Intercompany Transactions" section of this report for more details about additional problems noted during the current examination.

HISTORY

General

Ozark National Life Insurance Company was incorporated on April 22, 1964, and was issued a Certificate of Authority on June 24, 1964, as a life insurance company under the insurance laws of Chapter 376, RSMo (Life insurance). The Company was purchased from the I.C.H. Group in 1982 by CNS Corporation (formerly known as N.I.S Corporation) in a leveraged buy-out. CNS Corporation (CNS) is the sole shareholder of the Company.

Capital Stock

As of December 31, 2001, the Company had authority to issue 535 shares of \$15,000 par value common stock. All of the 535 shares were issued and outstanding for a balance of \$8,025,000 in the Company's capital account at December 31, 2001. It should be noted that CNS Corporation, the sole shareholder, has pledged one hundred

percent of the issued and outstanding shares of the Company as collateral on CNS's \$10 million loan and a \$5 million line of credit agreement with United Missouri Bank.

Dividends

The dividend history of the Company since inception is as follows:

<u>Years</u>	<u>Amount</u>
Inception to 1998	\$114,007,094
1999	6,997,800
2000	7,749,475
2001	11,497,150
Total	\$140,251,519

These dividends were paid to CNS Corporation, the sole shareholder.

It should be noted that at the board of directors meeting of December 21, 2001, a cash dividend of \$4,390 per share on each of the 535 issued and outstanding shares, or \$2,348,650 in the aggregate was declared, to be paid to holders of record on January 2, 2002. This dividend declared but unpaid was not reported as a charge to surplus in the Annual Statement as of December 31, 2001. [See "Notes to the Financial Statement" section of this report for more details regarding this issue].

Management

The directors of Ozark National Life Insurance Company, who are also employees of the Company, elected and serving as of December 31, 2001, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
Thomas E. Berry Kansas City, Missouri	Vice President-Data Processing & Underwriting Ozark National Life Insurance Company
Carol Downey Lee's Summit, Missouri	President N.I.S Financial Services, Inc.

James T. Emerson Shawnee, Kansas	Vice President, Controller & Secretary Ozark National Life Insurance Company
V. Verlene Ascensio Kansas City, Missouri	New Business Supervisor Ozark National Life Insurance Company
Margaret A. Glover Carrollton, Missouri	Paralegal Ozark National Life Insurance Company
David R. Melton Smithville, Missouri	Attorney Ozark National Life Insurance Company
Charles N. Sharpe Bethel, Missouri	President Ozark National Life Insurance Company
Laurie J. Sharpe Bethel, Missouri	Vice President & Assistant Secretary Ozark National Life Insurance Company
S. Alan Weber Olathe, Kansas	Exec. Vice President & Treasurer Ozark National Life Insurance Company

The officers of the Company elected and serving as of December 31, 2001, were as follows:

<u>Name</u>	<u>Title</u>
Charles N. Sharpe	President & Chairman of the Board
S. Alan Weber	Executive Vice President & Treasurer
James T. Emerson	Vice President & Secretary
David R. Melton	Senior Counsel
Laurie J. Sharpe	Vice President & Assistant Secretary
Thomas E. Berry	Vice President-Data Processing & Underwriting

Subsequent to the examination date, specifically at the annual board meeting on March 28, 2002, significant changes were made to the names and titles of officers of the Company serving at year-end, 2001. The officers elected and serving following the annual board meeting were as follows:

<u>Name</u>	<u>Title</u>
Charles N. Sharpe	Chairman of the Board
S. Alan Weber	President

James T. Emerson	Executive Vice President & Treasurer
David R. Melton	Vice President & Secretary
Laurie J. Sharpe	Vice President & Assistant Secretary
Thomas E. Berry	Vice President-Data Processing & Underwriting

The Company's Bylaws provide for the establishment of an Executive, Investment and Audit committees with a minimum of three or more persons serving as members. As of December 31, 2001, the following individuals were elected and serving in the committees as indicated:

	<u>Executive</u>	<u>Audit</u>	<u>Investment</u>
Charles N. Sharpe	Member	Member	Member
S. Alan Weber	Member	Member	Member
David Melton	Member	N/A	N/A
James T. Emerson	N/A	Member	Member

Conflict of Interest

The Company has procedures which require that all officers and directors complete a conflict of interest statement annually. Signed statements of officers and directors were reviewed for the examination period, no material conflicts were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. Neither the Articles of Incorporation nor the Bylaws were amended during the period under examination.

The minutes of the Company's Board of Directors, Committees and Sole Shareholders' annual meetings were reviewed and, in general, appear to properly reflect and approve the corporate transactions and events for the period under examination.

Pursuant to a meeting of the Board of Directors on April 10, 2000, the report of the association financial examination as of December 31, 1998, was reviewed and approved.

Acquisitions, Mergers and Major Corporate Events

None.

Surplus Debentures

None.

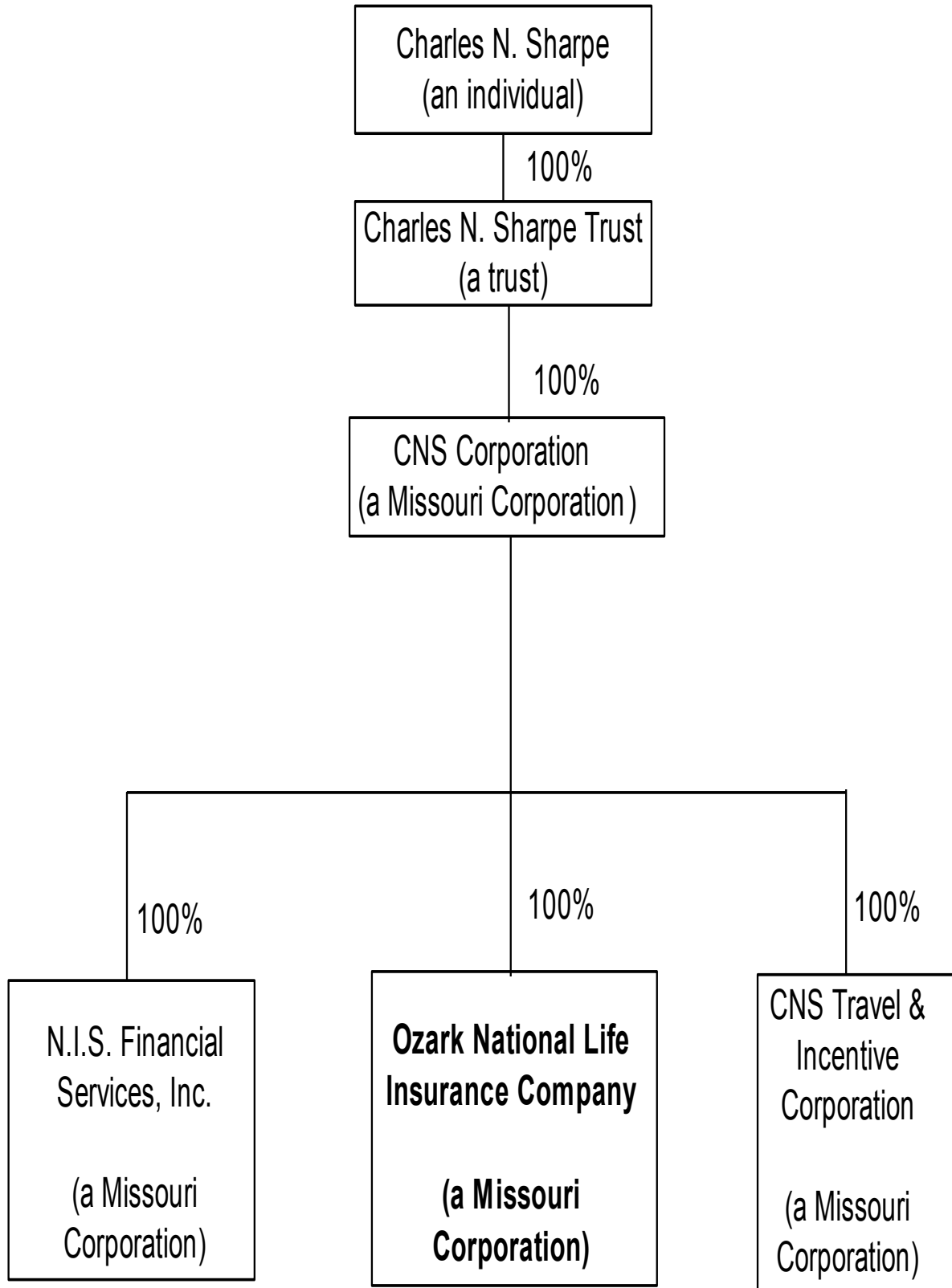
AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

Ozark National Life Insurance Company is a wholly owned subsidiary of CNS Corporation, which is wholly owned by the Charles N. Sharpe Trust (Trust). The Trust is controlled by Charles N. Sharpe, an individual, who is the ultimate controlling person within the holding company system as defined by Section RSMo 382.010 (Definitions). Insurance Holding Company Registration Statements were filed by Ozark National Life Insurance Company for itself for the period under examination.

Organizational Chart

The following organizational chart depicts the holding company system of Ozark National Life Insurance Company as of December 31, 2001:



Intercompany Transactions

The Company has several agreements with its parent, CNS Corporation and other related parties. The terms of the agreements are outlined below.

1. Type: Data Processing Services Agreement

Parties: Ozark National and CNS Corporation

Effective: January 13, 1997 (agreement had been in effect prior to execution)

Terms: Ozark National shall provide all data processing services, including the use of its mainframe, personal computer network, programming, software licenses obtained from third parties to which CNS has been identified as an additional licensee, and the maintenance and development of the data processing system to and for CNS. CNS agrees to pay Ozark National the sum of \$3,750 per month for these services.
2. Type: Cost Sharing Agreement for Supplies and Services

Parties: Ozark National and CNS Corporation

Effective: January 13, 1997 (agreement had been in effect prior to execution)

Terms: Ozark National agrees to provide printing supplies and services to CNS at the same quantity and frequency as previously utilized. CNS agrees to pay Ozark National \$4,000 per month for these services.

Exam Exception: This agreement is incorrectly worded. In actual practice, CNS is the provider of the services contemplated in the agreement and Ozark National pays \$4,000 per month to CNS for the services. The Company is directed to file an amendment to the agreement with the MDI to correct the incorrect wording.
3. Type: Agency Agreement

Parties: Ozark National and CNS Corporation

Effective: January 1, 1986

Terms: CNS recruits, trains and supervises the agency force that produces business of insurance for the Company. CNS receives a 15% first year overwrite commission and additional commission for

subsequent years that varies by policy type between 3% and 6%. These commissions are in addition to commissions paid to the agents recruited by CNS on behalf of the Company. CNS pays the agents the agreed upon commissions, however, Ozark National provides the funds to CNS (through wire transfers) to effect the commission payments.

Exam Exception: The Company did not report and/or disclose the portion of the commissions paid to CNS for onward payment to the third party agents on the Schedule Y of the Annual Statement or on the Form B filings to the MDI. The transfer of funds from Ozark National to CNS for payment of these commissions constitutes an intercompany transaction that is subject to the disclosure requirements. The Company is directed to make these disclosures in future Form B and Annual Statement filings.

4. Type: Consolidated Tax Allocation Agreement

Parties: Ozark National and CNS Corporation

Effective: December 1, 1991

Terms: Ozark National files a consolidated federal income tax return with its parent, CNS Corporation and two related affiliates, N.I.S. Financial Services, Inc. (N.I.S. Financial) and CNS Travel & Incentives Corporation (CNS Travel). Pursuant to the agreement, Ozark National pays CNS the actual tax it would have owed on a separate federal income tax return basis.

Exam Exception: The tax allocation agreement does not list the two affiliates as parties to the agreement; however, N.I.S. Financial and CNS Travel taxes are consolidated with the Company's taxes. Consolidation of Ozark National's taxes with these affiliates without an underlying agreement is contrary to Missouri holding company law and Statements of Statutory Accounting Principles No. 10, (Income Taxes) paragraph 12 (b). The Company is directed to amend the existing agreement by including the two affiliates or desist from consolidating its taxes with the two affiliates, if it is determined that their inclusion in the existing agreement is not a preferred course of action.

5. Type: Lease Agreement

Parties: Ozark National and CNS Corporation

Effective: December 12, 1985

Terms: CNS leases 23,634 square feet of office space from Ozark National at a monthly rent of \$32,387.83. Per amendment number six to the original agreement, the term of the lease shall be month-to-month effective December 1, 1989.
6. Type: Contract for Travel Agency Services

Parties: Ozark National and CNS Travel & Incentives Corporation (CNS Travel)

Effective: March 1, 2000

Terms: CNS Travel is to obtain all travel and meeting accommodation services, including airline tickets, car rentals, lodging, food functions, tours, etc. on behalf of the Company as an independent contractor. The Company shall pay all the costs incurred and expenditures made on its behalf by CNS Travel. In addition, the Company shall pay CNS Travel a commission of 10% based on gross charges expended on airline tickets, car rentals, lodging, food functions and tours.

Exam Exception: The Company did not disclose this contract in the holding company registration statement (Form B) filings for the years since the contract went into effect. In accordance with Missouri Regulations 20 CSR 200-11.101, Form B Item 5 (Insurance holding company system regulation with reporting forms and instructions), Ozark National is required to disclose all agreements in force with affiliates. In addition, the Company did not report the amount paid out to CNS Travel under this contract in Schedule Y of the Annual Statement as required under the NAIC's Annual Statement Instructions. The Company is directed to correct these problems in its next Form B and Annual Statement filings.

7. Type: Lease Agreement
- Parties: Ozark National and CNS Travel
- Effective: November 10, 1990, subsequently amended effective October 31, 1991, for two successive five-year terms beginning on October 31, 1996.
- Terms: Ozark National leases office suite and two contiguous storage spaces, totaling 1,510 square feet at its building at 811 Locust Street, Kansas City, Missouri to CNS Travel at a monthly rent of \$1,510.00. In practice, CNS pays the rent to Ozark National for CNS Travel.
- Exam Exception: Since this agreement predates the Missouri holding company law with respect to Form D filing, the absence of such a filing in this case is not deemed an exception. However, the Company has not disclosed this transaction in its Form B filings or reported the rents received in Schedule Y of the Annual Statement. The Company is directed to make these disclosures in the future.

In addition to the intercompany transactions summarized above, this examination noted additional related party transactions between the Company, CNS, CNS Travel and N.I.S Financial that are not covered by an agreement, as required by law. These transactions include payment for professional fees such as legal and accounting services, employee benefits and various miscellaneous expenses, etc. The Company is directed to draw up a cost sharing agreement with its parent and the affiliated entities, which should describe how common expenditures paid by Ozark National on behalf of its parent and affiliates should be allocated. Ozark National should file the applicable Form D for this agreement with the MDI in accordance with the applicable law.

The amounts paid to and (received) from CNS and the other affiliates pertaining to the above agreements for the years under examination were as follows:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Agency Commission paid to CNS, other than commissions paid to third-party agents	\$6,947,303	\$6,899,738	\$6,632,806
Commissions paid to CNS for third-party agents	19,855,652	20,507,504	19,600,234
Printing fees paid to CNS	48,000	48,000	48,000
Dividends paid to CNS	11,497,150	7,749,475	6,997,800
Travel expenses paid to CNS Travel	1,198,556	1,654,083	1,075,437
Intercompany tax allocation paid to CNS	10,876,720	11,815,989	10,775,033
Rent received from CNS per #5	(406,774)	(406,774)	(406,774)
Rent received from CNS per #7	(18,120)	(18,120)	(18,120)
Computer fees received from CNS	<u>(45,000)</u>	<u>(45,000)</u>	<u>(45,000)</u>
Net Amount Paid or (Received)*	<u>\$49,953,487</u>	<u>\$48,204,895</u>	<u>\$44,659,416</u>

*Note that these amounts do not include monies paid or received from the parent and affiliates that are not yet governed by an intercompany cost sharing agreement.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing crime and fidelity coverage with a liability limit of \$1,250,000 and a \$25,000 deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines. The Company is also a named insured on the following insurance policies:

Property
Inland Marine
Commercial Automobile
Workers Compensation

Boiler and Machinery
Commercial General Liability
Umbrella Liability

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Ozark National provides its employees with a range of benefits including, but not limited to, major medical insurance, dental insurance, group term insurance (including accidental death and dismemberment), long-term disability, fully subsidized lunches and a non-qualified defined contribution retirement plan. At year-end 2001, the Company made adequate provision in its financial statement for these benefits.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2001, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section RSMo 376.290 (Trust Deposits). The Company's required deposit for Missouri is \$600,000. The funds on deposit as of December 31, 2001, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
St. Louis, MO Muni. Bond	\$1,750,000	\$1,811,075	\$1,771,383

Deposits with Other States

The Company also has funds on deposit with other states. Those funds on deposit as of December 31, 2001, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arkansas	Government Bond	\$125,000	\$131,719	\$118,266
California	U.S. Treasury Note	2,250,000	2,400,705	2,206,272
Colorado	Government Bond	1,200,000	1,222,200	1,200,000
Florida	Government Bond	300,000	305,550	300,000
Georgia	Government Bond	26,000	26,611	26,611
New Mexico	Government Bond	125,000	131,719	118,268
Ohio	Government Bond	<u>2,200,000</u>	<u>2,330,000</u>	<u>2,282,991</u>
Totals		<u>\$6,226,000</u>	<u>\$6,548,504</u>	<u>\$6,252,408</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

Ozark National Life Insurance Company is licensed by the Missouri Department of Insurance under Chapter 376 RSMo (Life, Health and Accident Insurance) to write the business of life, annuities and endowments and accident and health insurance. The Company was also licensed in the following states as of December 31, 2001:

Alabama	Arizona	Arkansas	California
Colorado	Florida	Georgia	Illinois
Indiana	Iowa	Kansas	Kentucky
Louisiana	Michigan	Minnesota	Mississippi
Montana	Nebraska	Nevada	New Mexico
North Dakota	Ohio	Oklahoma	South Dakota
Tennessee	Texas	Utah	Wisconsin
Wyoming			

During the course of the examination, it was noted that the Company has a plan to become licensed in North Carolina.

Ozark National Life Insurance Company primarily sells ordinary life insurance. The Company's whole life insurance product is sold in conjunction with a family of mutual funds brokered by an affiliated entity, N.I.S. Financial Services, Inc., (N.I.S. Financial). These products and policies are marketed by over 600 captive agents who are supervised by CNS Corporation. N.I.S. Financial is a licensed securities broker/dealer that markets mutual funds to Ozark National's policyholders.

Subsequent to the examination date, the Company obtained specific approval from the Missouri Department of Insurance to market a Long-Term Care Accelerated Benefit product. This product will be sold in the form of a rider attached to the Company's existing individual whole life insurance policies. The Company plans to begin selling this product beginning in 2003.

Policy Forms & Underwriting
Advertising & Sales Material
Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. The last Market Conduct Examination [Report No. 2066-1298-REX] dated December 1998, covered the period from November 1997 to December 1998. A cursory review of this report did not indicate any material discrepancies.

REINSURANCE**General**

The Company's reinsurance and premium activity on a direct written, assumed and ceded basis for the period under examination is detailed below:

<u>Premiums:</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Direct Business	\$101,970,932	\$98,985,002	\$93,441,712
Reinsurance Assumed:	653,838	684,830	737,397
Reinsurance Ceded	<u>(3,474,169)</u>	<u>(3,632,172)</u>	<u>(3,586,711)</u>
Net Premiums Written	<u>\$99,150,601</u>	<u>\$96,037,660</u>	<u>\$90,592,398</u>

Assumed

The Company assumes business under three contracts on a 100% coinsurance basis with Conseco Life Insurance Company, Madison Life Insurance Company and Washington Life Insurance (formerly known as Wabash Life Insurance Company). The Company assumes 100% of the direct business covered by these agreements and retrocedes 50% of the business assumed to Conseco Life. All of the business assumed under these agreements has been in runoff since 1992.

Ceded

The Company reported total reserve credits taken on business ceded of \$35,860,032 in Schedule S, Part 3, Section 1 of the 2001 Annual Statement. Approximately 99% of the total reserve credits taken were on business ceded to Conseco Life Insurance Company (Conseco), of Carmel, Indiana. Most of the business was ceded

under two automatic coinsurance agreements that have been in effect since the 1980s. Under one of these coinsurance agreements with Consec, effective April 1, 1982, the Company cedes 17% of the risk on two closed blocks of business. Pursuant to the second coinsurance agreement, which was also effective April 1, 1982, the Company cedes 50% of the risk on five closed blocks of business.

Currently, all new business is being ceded to ERC Life Reinsurance Corporation (ERC Life) under a yearly renewable term agreement effective April 1, 1988. Under this agreement, the Company's retention is \$200,000 on any one life, and the ERC Life's maximum limits are \$800,000 on any one life. Reserve credits taken on business ceded to ERC Life as of December 31, 2001, were not significant.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

ACCOUNTS AND RECORDS

General

Financial statements of the Company were audited by the CPA firm, PricewaterhouseCoopers LLP, of Kansas City, Missouri for the years ending December 31, 2001, 2000 and 1999.

Loss Reserves

Aggregate reserves for life policies and other actuarial items were reviewed and certified by Gary L. Rose, FSA, MAAA, CLU, of Lewis and Ellis, Inc., of Overland Park, Kansas for years ending December 31, 2001, 2000 and 1999.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2001. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements". (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination that are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual annual statement item.

Assets

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$324,180,880		\$324,180,880
Preferred stocks	4,010,777	734,248	3,276,529
Common stocks	1,532,010	433,370	1,098,640
Mortgage loans on real estate	871,503		871,503
Properties occupied by the Company	6,151,738		6,151,738
Investment real estate	6,364,096		6,364,096
Policy loans	12,359,008	507	12,358,501
Cash and short-term investments	8,759,167		8,759,167
Experience rating refunds	37,647		37,647
Electronic data processing equipment	274,386		274,386
Federal income tax recoverable	2,060,148		2,060,148
Guaranty funds receivable or on deposit	202,080	202,080	0
Life insurance premiums and annuity deferred and uncollected	30,418,698	2,728	30,415,970
Accident and health premiums due and unpaid	4,652		4,652
Interest and dividend income due and accrued	3,142,275		3,142,275
Receivable from parent & affiliates	53,621		53,621
Other assets non-admitted	772,171	772,171	0
Amounts due on reinsurance assumed Note 1	3,610,725	3,402,010	208,715
Total Assets	<u>\$404,805,582</u>	<u>\$5,547,114</u>	<u>\$399,258,468</u>

Liabilities, Surplus and Other Funds

Aggregate reserve for life policies and contracts Note 1	\$326,171,432
Aggregate reserve for accident and health policies	1,900,934
Liability for deposit-type contracts	4,788,029
Policy and contract claims – life	3,287,695
Policy and contract claims – accident and health	344,602
Provision for policyholder’s dividend apportioned for payments	252,856
Premiums and annuity considerations received in advance	1,308,108
Other amounts on reinsurance	76,924
Interest maintenance reserves	3,753,910
Commissions to agents due and accrued	788,123
Commissions and expense allowances payable on reinsurance assumed	1,439
General expenses due or accrued	570,874
Taxes, licenses and fees due or accrued	880,172
Federal income taxes due or accrued	1,997,155
Unearned investment income	401,139
Amounts withheld or retained by company as agent or trustee	1,497,317
Amounts held for agents’ account	210,923
Remittances and items not allocated	1,344,127
Liability for benefits for employees and agents	1,252,500
Dividends to stockholders declared and unpaid Note 2	2,348,650
Asset valuation reserve	2,877,506
Accounts Payable	<u>392</u>
Total liabilities	\$356,054,807
Common stock	8,025,000
Gross paid in and contributed surplus	2,920,113
Unassigned funds (surplus)	<u>32,258,548</u>
Surplus as regards policyholders	<u>\$43,203,661</u>
Total liabilities and surplus	<u>\$399,258,468</u>

Summary of Operations

Premiums and annuity considerations	\$99,150,601
Net investment income	23,221,327
Amortization of interest maintenance reserve	557,403
Commissions and expense allowances on reinsurance ceded	309,236
Miscellaneous income	<u>2,089</u>
Totals revenues	\$123,240,656
Death benefits	16,497,237
Matured endowments	97,705
Annuity benefits	176,476
Disability benefits and benefits under accident and health policies	2,418,053
Coupons, guaranteed annual pure endowments and similar benefits	17,241
Surrender benefits and other withdrawals	8,862,797
Interest and adjustments on policy or deposit-type contract funds	252,059
Payments on supplementary contracts with life contingencies	86,978
Increase in aggregate reserve for life and accident and health policies	27,974,633
Commissions on premiums, annuity considerations and deposit-type funds	25,564,487
Commissions and expense allowances on reinsurance assumed	13,336
General insurance expenses	9,056,556
Insurance taxes, licenses and fees excluding federal income taxes	2,201,343
Increase in loading on deferred and uncollected premiums	<u>37,103</u>
Total underwriting deductions	<u>\$93,256,004</u>
Net gain from operations before dividends and federal income taxes	29,984,652
Dividends to policyholders	<u>251,459</u>
Net gain from operations after policy dividends & before federal income taxes	29,733,193
Federal income taxes incurred	12,209,693
Net realized capital gains or (losses)	<u>(329,216)</u>
Net income	<u>\$17,194,284</u>

Capital and Surplus Account

Capital and surplus, December 31, 2000	\$38,845,877
Net income	17,194,284
Change in net unrealized capital gains or (losses)	305,211
Change in nonadmitted assets and related items	249,152
Change in asset valuation reserve	221,188
Change in net deferred income tax	261,912
Cumulative effects of changes in accounting principles	(28,163)
Examination change	(2,348,650)
Dividends to stockholders	<u>(11,497,150)</u>
Net change in capital and surplus for the year	<u>\$4,357,784</u>
Capital and surplus, December 31, 2001	<u>\$43,203,661</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1:	Amounts due on reinsurance assumed	\$0
Note 1:	Aggregate reserve for life policies and contracts	\$326,171,432

The amount reported here is \$3,402,010 less than the amount reported by the Company for each of the above referenced accounts as of the examination date. The difference reflects improper presentation of modified coinsurance reserves pursuant to a certain assumed modified coinsurance agreement. In accordance with the NAIC's Statements of Statutory Accounting Principles (SSAP) No. 61, an assuming company under a modified coinsurance treaty must reduce its reserves, which must then be reported by the ceding company. Ozark National's practice has been to report an asset account [Amounts due on reinsurance assumed] and increase its reserves [Aggregate reserve for life policies and contracts] by the same amount. The correct procedure is for Ozark National to reduce its reserves by the amount of the underlying reserves reported by the ceding company without reporting an asset account. The Company is directed to comply with this procedure and the provisions of SSAP No. 61 in the future.

Note 2: Dividends to stockholders declared and unpaid \$2,348,650

The amount reported by this examination is \$2,348,650 more than the amount reported by the Company as of the examination date. The Company's board of directors declared a dividend on all the issued and outstanding stock of the Company on December 21, 2001, payable on January 2, 2002. The Company did not accrue for this dividend as of December 31, 2001, in violation of SSAP No. 72. The Company is directed to accrue for declared and unpaid dividends between reporting periods in its Annual and Quarterly Statements or change the declaration date of stockholder dividends.

EXAMINATION CHANGES**Capital and surplus per Company:**

Common capital stock	\$8,025,000
Gross paid in and contributed surplus	2,920,113
Unassigned funds (surplus)	<u>34,607,198</u>
Total capital and surplus	\$45,552,311

	Increase <u>In Surplus</u>	Decrease <u>In Surplus</u>
Amounts due from assumed reinsurance- Note 1		\$3,402,010
Aggregate reserve for life policies and contracts- Note 1	\$3,402,010	
Dividends to stockholders declared and unpaid Note 2	<u>0</u>	<u>2,348,650</u>
Total	<u>\$3,402,010</u>	<u>\$5,750,660</u>
Net Change		<u>(2,348,650)</u>

Capital and surplus per examination:

Common capital stock	8,025,000
Gross paid in and contributed surplus	2,920,113
Unassigned funds (surplus)	<u>32,258,548</u>
Total capital and surplus	<u>\$43,203,661</u>

GENERAL COMMENTS AND/OR RECOMMENDATIONS**Intercompany Transactions – Cost Sharing Agreement for Supplies and Services
(page 10)**

This agreement is worded incorrectly. The Company is directed to file an amendment to the agreement with the MDI that accurately describes the responsibilities of the parties.

Intercompany Transactions-Agency Agreement (page 11)

The Company did not disclose the portion of agency commissions paid to third-party agents through CNS in the Form B filings and Annual Statement Schedule Y. The Company is directed to make these disclosures in future Form B and Annual Statement filings.

Intercompany Transactions-Consolidated Tax Allocation Agreement (page 11)

The Company's federal income tax is consolidated with the parent and two affiliates not included in the tax allocation agreement. The Company is directed to amend the existing agreement by including the two affiliates or desist from consolidating its taxes with the two affiliates, if it is determined that their inclusion in the existing agreement is not a preferred course of action.

Intercompany Transactions-Contract for Travel Agency Services (page 12)

This agreement has not been disclosed in the holding company registration statement (Form B) filed by the Company since this contract was entered into, contrary to Missouri statute. In addition, the Company did not report amounts paid under this contract in Schedule Y of the Annual Statement. The Company is directed to rectify these issues in future Form B and Annual Statement filings.

Intercompany Transactions-Lease Agreement (page 13)

The lease agreement with CNS Travel and the related rent received under the lease has not been disclosed in both the Form B filings and Annual Statement Schedule Y. The Company is directed to make these disclosures in the future.

Intercompany Transactions-Overall (page 13)

This examination noted instances where the Company shared certain common costs with its parent and affiliates without an underlying agreement, as required by Missouri holding company laws. The Company is directed to draw up a cost sharing agreement with its parent and affiliated entities; the agreement should stipulate how common costs paid by one entity on behalf of the others should be allocated. The agreement should be filed with the MDI in accordance with the applicable laws.

Amounts Due on Reinsurance Assumed and Aggregate Reserve for Life Policies and Contracts (page 25)

The Company's Annual Statement presentation of a certain assumed modified coinsurance reserves as of the examination date is inconsistent with the requirements of the NAIC's Statements of Statutory Accounting Principles, (SSAP) No. 61. This SSAP requires an assuming company under a modified coinsurance treaty to reduce its reserves, which must then be reported by the ceding company. The Company is directed to comply with the provisions of SSAP No. 61 in the future.

Dividends to Stockholders Declared and Unpaid (page 25)

The Company did not accrue for a declared and unpaid dividend as of December 31, 2001, in violation of SSAP No. 72. The Company is directed to accrue for declared and unpaid dividends between reporting periods, in its Annual and Quarterly Statements or change the declaration date of stockholder dividends.

SUBSEQUENT EVENTS

No material subsequent events were noted.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Ozark National Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Douglas Bey, CFE, CPA, Bernie Troop, CFE and Steven Koonse, CFE, examiners for the Missouri Department of Insurance, participated in this examination. Andrew Balas, CFE, AES, Computer Audit Specialist for the Missouri Department of Insurance performed a review of the information system environment. Timothy F. Harris, FSA, MAAA of Milliman USA, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Levi N. Nwasoria, CPA, CFE on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Levi N. Nwasoria, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this _____ day of _____, 2003.

My commission expires: _____
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance